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THE WEEKLY OF
BUSINESS AVIATION

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FRINGE BENEFITS RULES RECEIVE FROSTY RECEPTION

Proposed and temporary regulations governing the taxation of fringe benefits associated with the non-business use of company aircraft, issued by the IRS last week, have left a deep chill across the business and corporate aviation community.

"It's absurd," declared General Aviation Manufacturers Association President Ed Stimpson. "It's harassment; they've come out with a nightmare." Added Joseph E. (Jeb) Burnside, the National Business Aircraft Association's manager-government relations, "These are clearly valuation methods that completely overstate the value (of such fringe benefits) to the extent that we view them punitive in nature."

The fringe-benefit measure is "temporary" because the IRS was required by the Tax Reform Act of 1984 to publish the regulations by the first of the year. But they are also in the form of a notice of proposed rulemaking, which enables the public to comment before they become final. Essentially, the rules place a taxable value on the fringe benefits associated with the use of company aircraft and/or empty aircraft seats for non-company purposes.

Hypothetical Yardstick

More specifically, it establishes multiples of a very complex formula--one previously used as a hypothetical yardstick for airline rate-making by the CAB, but discarded with deregulation--for determining that taxable value. It's called the Standard Industry Fare Level (SIFL), or "siffel" for short. With the Jan. 1 demise of the CAB, however, DOT will establish the SIFL for IRS, revising it every six months.

For the first six months of 1985, the SIFL is thus: a "terminal charge" (flat fee assessed each flight segment ostensibly to reflect wear and tear on airline terminals) of $27.05, plus 14.80 cents per mile for the first 500 (statute) miles of the trip, plus 11.28 cents per mile for miles between 501 and 1,500 miles, and 10.85 cents per mile for all miles over 1,500 miles. For a 2,000-mile flight, the value per airplane seat would be $268.10 (or $536.20 for the roundtrip).

Multiples Add Up

Now for the multiples:

- 125 percent of the SIFL rate for any flight by any non-key employe. A "key employe" is defined as any employe who is a five-percent owner or an officer of the company, or who, with respect to a particular trip, controls the use of the airplane. For the purposes of our 2,000-mile flight, the one-way value of the passenger seat for tax purposes would be placed at $335.13.
- 125 percent of the SIFL rate for a flight by a key employe--but only if there is a "primary business purpose" for the trip by the airplane. Entertaining employes or other individuals is not a business purpose, the rule states.
- 600 percent of the SIFL rate, or $1,608.60 for the one way trip ($3,217.20 roundtrip) over the 2,000-mile segment for a flight by a key employe if there is no "primary" business purpose for the airplane.

In all cases, persons, such as spouses, accompanying employes will be taxed to the employe at the same rates, which "are intended" to approximate airline fares of 100 percent coach and 300 percent first class respectively.

In a case in which a company airplane is used on a trip with no business purpose, the value would be

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NTSB URGES UPDATED FDR, CVR UNITS ON MILITARY AIRCRAFT – National Transportation Safety Board, as a result of investigations into two incidents involving Air Force airplanes transporting Vice President George Bush, has determined that the foil-type flight data recorders on board are obsolete and meet only minimum Federal requirements for older airplanes in the civil transport air carrier fleet.

In the first incident, which occurred Sept. 30, 1984, Air Force Two was climbing to cruise altitude and passed a general aviation airplane at less than the prescribed air traffic control vertical or lateral separation. Both airplanes were in instrument meteorological conditions and the pilots were responding to ATC direction. Precise circumstances leading to ATC operational error are under investigation. In the second incident, on Oct. 18, Air Force Two was in visual meteorological conditions when the pilots observed a general aviation airplane passing ahead from left to right. Evasive maneuvering was required by Air Force Two to avoid a collision. The airplanes involved were not in positive control airspace, and the general aviation airplane was not under positive control.

NTSB said the foil-type flight recorders, which are found on C-137B/C, a military version of the Boeing 707-153/323, and C-9, a military version of Douglas DC-9-30, as well as the involved Air Force C-137B, are mechanically complex and difficult to maintain and adjust for proper operation. The board also noted cockpit voice recorders aboard Air Force C-137 and C-9 airplanes are old and could limit government investigators in determining causes of accidents in which the aircraft might be involved.

As a result of the investigation NTSB recommended the Department of Defense equip all current and newly acquired fixed-wing and rotary-wing aircraft operated by the military departments which are used primarily to transport passengers, with state-of-the-art cockpit voice recorders and digital flight data recorders that will record with sufficient parameters for effective accident investigation, and place these recorders in the aircraft for maximum survival potential.

NORTHROP DEVELOPS ADVANCED THERMAL ANALYSIS METHOD – Northrop Corporation said it has developed a computerized thermal analysis method that may be the most advanced and cost effective in the aerospace industry. It said the method generates a mathematical model used to determine how best to protect various components from severe heat. The company said that to use the thermal model program, an engineer needs only to input a picture of the designed component on a computer monitor screen. The computer system then does all of the calculations required and generates the thermal model for analysis.

Cary E. Scheutz, a senior engineer in F-20 thermal and environmental control systems, said that developing the correct method for cooling an aircraft formerly took some time and effort. "With the new procedure, computer systems allow us to cut the time for that task by 95 percent," he said.

CAB SETS UP CONFIDENTIAL FINANCIAL REPORT FOR COMMUTERS – Civil Aeronautics Board, in adopting a final reporting rule on exemptions for air taxi operations, last week established a new confidential report to obtain information on operating revenues, operating expenses, scheduled passenger revenues, and net income from certificated airlines that operate only small aircraft. Confidential treatment was previously given to financial reports only if specifically requested by the airline. CAB also reduced to a minimum the reporting requirements for such airlines.

The board said the actions would provide Department of Transportation with information it needed for forecasting. Both organizations said inaccurate estimates could produce unreliable aviation and activity projections, leading to higher costs for the air transportation industry. CAB agreed with DOT's stated need for the financial data to support administration of aviation trust fund revenues and airport development funds. CAB ceased to exist Dec. 31 under the provisions of the Airline Deregulation Act of 1978. It is the first federal regulatory agency to do so.

FY85 BUDGET TAGS $4.8 BILLION FOR HELO PROGRAMS – The fiscal year 1985 appropriated Department of Defense budget includes $4.84 billion in readily identifiable helicopter programs. The figure does not include minor modifications, support equipment and facilities, and spare parts that approximately total an additional $1.5 billion. Distribution of the major programs is 66 percent for procurement; 22 percent for modification and 12 percent for research and development. A chart detailing the various helicopter systems by service and primary helicopter manufacturer can be found *on the back of this page.*

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FY 1985 APPROPRIATIONS BUDGET — HELICOPTER RELATED

SVCE / MANUF	US ARMY SYSTEM	$	US NAVY SYSTEM	$	USAF SYSTEM	$	TOTALS
AGUSTA	CH-47 (P)	110.0					P = 110.0 (100%) TOTAL = 110.0 (02%)
		110.0 (100%)					
BELL	AHIP (M)	204.4	AH-1T (P)	193.0			P = 217.3 (33%) M = 319.0 (48%) R = 118.8 (18%) TOTAL = 655.1 (13.5%)
	AH-1S (M)	90.0	TH-57 (P)	24.3			
	OH-58 (M)	4.0	H-1 (M)	15.8			
	UH-1 (M)	1.9	TH-57 (M)	.7			
	EH-1 (M)	2.2	JVX (R)*	94.3			
	AHIP (R)	24.5					
		327.0 (50%)		328.1 (50%)			
BOEING VERTOL	CH-47 (M)	432.0	H-46 (M)	157.5			M = 589.5 (86%) R = 94.3 (14%) TOTAL = 683.8 (14%)
			JVX (R)*	94.3			
		432.0 (63%)		251.8 (37%)			
HUGHES	AH-64 (P)	1246.8					P = 1246.8 (99%) R = 16.7 (01%) TOTAL = 1263.5 (26%)
	AH-64 (R)	16.7					
		1263.5 (100%)					
KAMAN			SH-2F (P)	65.8			P = 65.8 (100%) TOTAL = 65.8 (1%)
				65.8 (100%)			
SIKORSKY	EH-60A (P)	182.5	CH-53E (P)	233.1	H-60D (P)	6.0	P = 1326.7 (88%) M = 161.0 (11%) R = 14.5 (01%) TOTAL = 1502.2 (31%)
	UH-60 (P)	460.1	SH-60B (P)	433.0			
	UH-60 (M)	5.9	UH-60 (P)	12.0			
			H-53 (M)	44.4			
			H-3 (M)	110.7			
			CH-53E (R)	14.5			
		648.5 (43%)		847.7 (57%)			
OTHER	HELLFIRE (P)	225.0	PROPULSION (R)	10.0			P = 225.0 (40%) R = 334.8 (60%) TOTAL = 559.8 (12%)
	LHX (R)	48.6	OTHER (R)	47.4			
	PROPULSION (R)	24.5					
	OTHER (R)	204.3					
		502.4 (90%)		57.4 (10%)			
TOTALS	P =	2224.4 (69%)	P =	961.2 (31%)	P =	6.0 (0%)	P = 3192.0 (66%) M = 1069.1 (22%) R = 579.1 (12%) TOTAL = 4840.2
	M =	740.4 (69%)	M =	329.1 (31%)			
	R =	318.6 (55%)	R =	260.5 (45%)			
	TOTAL =	3283.4 (68%)	TOTAL =	1550.8 (32%)			

NOTES:
- P = PROCUREMENT
- M = MODIFICATIONS
- R = RESEARCH & DEVELOPMENT
- $ = IN MILLIONS
- * = JVX R&D SPLIT 50% TO BELL AND BOEING VERTOL (SIKORSKY SH-60B: IBM IS PRIME CONTRACTOR)